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Economic Intelligence Weekly 2 Jul 75 ER EIW 75-26

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ECONOMIC INTELLIGENCE WEEKLY

2 July 1975

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Note

Overview

The Combined Current Account Balance of the Six Major Foreign Developed Countries Swung into a Small Surplus in the first quarter of 1975, for the first time since the beginning of the oil crisis. A reduction in oil imports accounted for 60% of the $4.0 billion turnaround. Oil prices changed little, while the volume of oil imports fell 18% as the global recession, a mild winter, and inventory drawdowns cut into demand. Non-oil balances also strengthened because the terms of trade continued to improve.

A $1.1 Billion Improvement in Trade with Other Developed Countries Accounted for Almost 40% of the Favorable First-Quarter Shift in the US Trade Balance. Imports from the developed countries fell $1.3 billion, while exports [redacted]

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Sterling Declined More Than 1.6% Against the Dollar over the Last Three Days, Closing at $2.21 on Tuesday. [redacted]

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Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 5943.

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US Banks Cut Back Sharply on New Lending to Non-Oil LDCs in the First Quarter of 1975. Claims by US banks on the LDCs rose at an annual rate of 45% over the first three months, compared with a record 75% increase in 1974. During 1974, the net position of LDCs with US banks deteriorated by $3.4 billion. The slowdown in lending in early 1975 clearly indicates increased concern in the banking community over the financial position of these countries.

The 36-Nation World Food Council Failed To Take Any Decisive Actions during its first session in Rome last week. No substantial amount of food aid was added to the 8.9 million tons previously pledged toward the annual UN goal of 10 million tons. Establishment of a billion-dollar agricultural development fund was postponed at least until September. Creation of an international grain reserve was discussed only perfunctorily. The meeting ended with many of the developing nations, principally African and Latin American, calling for the resignation of the Secretariat, headed by John A. Hannah of the United States, and for a new special session of the Council to be convened after better preparation. (Confidential)

Articles

CURRENT ACCOUNT BALANCES: A SURPLUS FOR THE SIX

In first quarter 1975, for the first time since the beginning of the oil crisis, the combined current account balance of the six major foreign developed countries swung into surplus. This improvement came largely at the expense of OPEC and smaller developed countries and the non-oil LDCs.

The improvement was widespread, with only Canada losing ground. A reduction in oil imports accounted for 60% of the $4.0 billion turnaround*; the non-oil trade balance also strengthened, mostly because the terms of trade of the Six continued to improve. The expected beginning of economic recovery points to a worsening in current account balances in the second half.

Oil Trade Balance

The oil trade deficit of the six countries was an impressive $2.4 billion lower in the first quarter than in the preceding period. [redacted] 25X6

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Oil prices changed little in early 1975, while the volume of oil imports fell by 18%. The oil companies cut back on imports because of weak demand due to the industrial slump and an unusually mild winter and because of the excessive level of stocks. Preliminary evidence indicates that the decline in imports continued in April and May in several countries.

Non-Oil Trade Balance and Services

The non-oil trade balance improved in January-March for the fourth quarter in a row. The $2.0 billion gain was attributable mostly to better terms of trade. Since the third quarter of 1974, the developed countries have benefited from continued increases in the prices of manufactured goods and a slump in commodity prices. In most of the Six, export volume declined a little more than import volume, 25X6
partly offsetting the betterment in terms of trade. [redacted] Italy were exceptions, with export volume improving considerably in relation to import volume.

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The global recession is reflected in the steep decline in non-oil trade volume. Import volume declined across the board, and, with the exception of France, the [redacted]

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The service accounts of the Six showed little change from the fourth quarter. Freight payments were held down by the depressed level of trade, while worker remittances abroad felt the pinch of the recession in Northern Europe. Partly offsetting these reduced outflows were a decline in tourism and an increase in interest payments caused by the increase in foreign debts in 1974.

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[redacted]

Prospects

The current account surplus of the Big Six is unlikely to persist beyond the second quarter of the year. Universal expectations of economic recovery and an October rise in oil prices are likely to push up the volume of crude oil imports in the third quarter. The prices of raw materials already have been considerably deflated so that little further decline can be expected. Furthermore, the small pickup anticipated in industrial activity late this year probably will boost the volume of raw material imports. Big Six exports to the smaller developed countries and the non-oil LDCs will weaken. These countries would be hard pressed to cover the $45 billion deficit (annual rate) implicit in the continuation of first-quarter trade patterns. (For Official Use Only) ■

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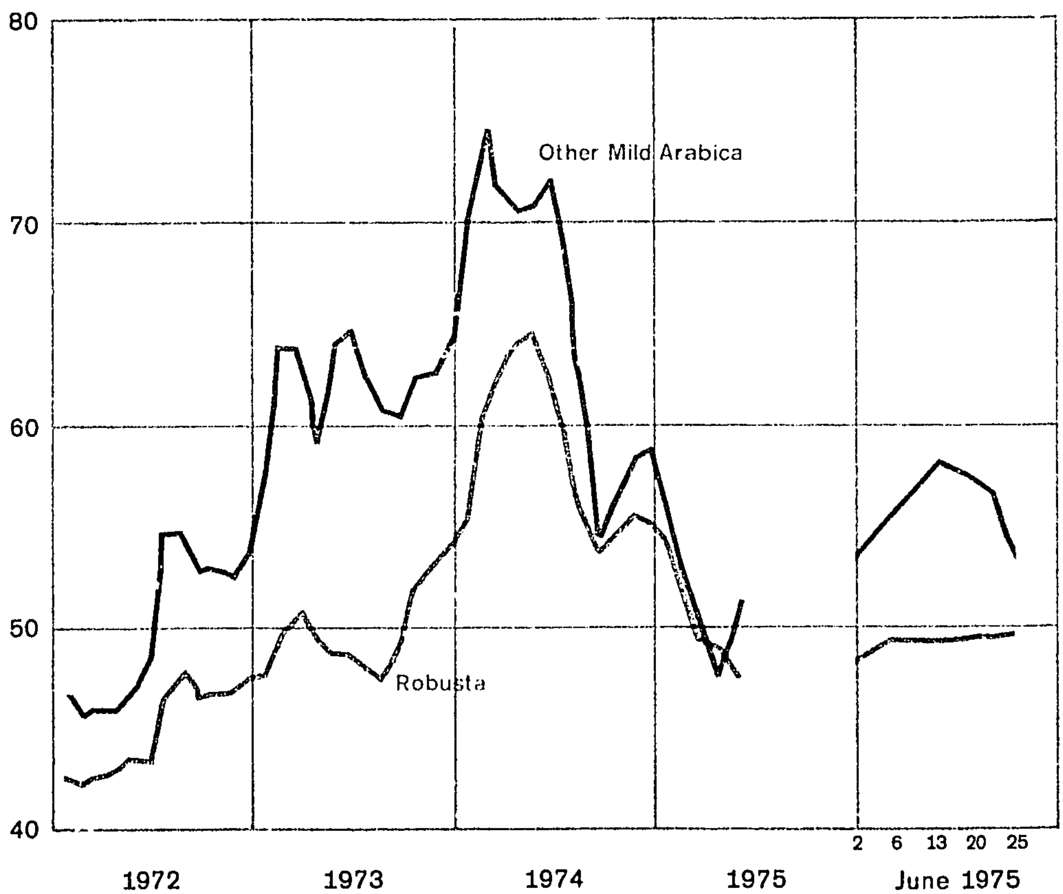
COFFEE PRODUCERS AND CONSUMERS TRY AGAIN FOR AGREEMENT

Producers and consumers are joining in another effort to revive the authority of the International Coffee Organization (ICO) to regulate the world market. Chances for success appear better than even.

The ICO Council, meeting in London, is seeking to resolve basic issues of price, market shares, and allocation of the costs of building a reserve stock. In preliminary negotiations earlier this year, a working group moved toward agreement on market shares but achieved little on other issues. Consumers now are near acceptance of a US proposal that would revive the ICO much as it was in 1972, when soaring prices ruptured cooperation between its consuming and producing members. Many producers appear ready to reluctantly accept such an arrangement as the best outcome they can expect.

Coffee Prices in New York
Cents per pound



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Negotiations are focused on two rival proposals, one put forward by Brazil and Colombia, the other by the United States. The Brazil-Colombia text includes automatic formulas for price changes and export quota adjustments that would eliminate annual negotiation of these questions and thus would neutralize the stronger bargaining power of the consuming members. The US proposal, generally close to the 1968 coffee agreement, calls for a more flexible ICO arrangement with price objectives and export quotas negotiated annually within the Council.

Producing countries still differ widely in their interest in a new agreement despite Brazilian concessions on division of the market. A minority, probably including Colombia, appears determined to reach an agreement. At the other extreme, several producers, including important African and Central American countries, see little or no advantage in a new agreement. A large number of countries between these extremes, including Brazil, want an agreement but still hope for better terms.

The consumers are insisting on a reserve stockpile provision as protection against soaring prices during periods of shortage. The producers probably will accept the stockpile provisions, particularly if they can get financial help from the consumers.

Producers are under considerable pressure to reach agreement to support the sagging coffee market. Large producer inventories continue to undermine the market even though coffee prices reversed their long decline in early June on (a) news of the Angolan port strike, (b) reports of temporary transportation problems in other African producing nations, and (c) fears of a possible Brazilian frost. Prices again declined sharply last week as the Angolan situation eased and Brazil cut its minimum export price. (Secret)■

* * * *

INDONESIA: SUHARTO TO PRESS CASE FOR AID

President Suharto will underscore the need for continued US economic and military aid to Indonesia during his unofficial visit on 5 July. He will show particular sensitivity to the decline in US financial commitments to the Intergovernmental Group on Indonesia (IGGI) over the past two years.

Other stops on Suharto's global itinerary also feature aid and trade discussions:

Iran - a $200 million loan for a fertilizer complex, and OPEC oil pricing policy;

Yugoslavia – an $80 million loan for electric generating equipment;

Canada – financial participation in IGGI; and

Japan – government backing for the $900 million Asahan aluminum and electric power project, and trade prospects, with emphasis on slumping Indonesian oil sales.

Current Economic Situation

The Indonesian case for increased foreign financial backing on a concessional basis has weakened in recent years. Eight years of Suharto government have brought solid and sustained economic gains, with annual growth in real GDP ranging from 7% to 10%. The gush of oil revenues in 1973-75 has added momentum to the process of growth and augurs well for long-run financial stability. Nevertheless, the country is plagued by widespread unemployment and underemployment, lack of social services and educational opportunities, pervasive poverty in rural areas, and extreme population pressure in the central island of Java. [redacted]

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The pace of economic expansion has been temporarily slowed because of world recession. The government's problems were compounded when Pertamina, the national oil company, proved unable to repay short-term debts to foreign banks totaling about $100 million. Pertamina also failed to transfer to the Indonesian treasury hundreds of millions of dollars in tax obligations funneled to it from foreign oil companies. Arrangements subsequently worked out with foreign bank groups will reschedule maturities of roughly $1 billion in Pertamina notes formerly due in 1975. Foreign earnings and foreign exchange reserves must cover an additional $500 million to $1 billion of 1975 obligations.

The Pertamina problem has not fundamentally altered Indonesia's real growth prospects for 1975 of 6%-7% – excellent prospects for an LDC in this year of global recession. Export gains will slow, however, given the soft international market. Foreign receipts, assisted by capital inflows, will probably leave foreign exchange reserves near the $1 billion mark. Manufacturing and construction projects already under way will continue to stimulate demand and employment. The outlook for agriculture is favorable notwithstanding recent losses from floods and pestilence. Stocks of fertilizer and rice are sufficient to prevent significant shortages.

Outlook, 1976-80

For the remainder of the decade we estimate that Indonesia will have sufficient export earnings and capital inflows to sustain real growth averaging 7% to 9% annually. If, as expected, the world economy begins to move up again in 1976, export opportunities will revive and, in turn, stimulate investment and expansion in the domestic economy. Crude oil and liquefied natural gas will be the key foreign exchange earners. Other exports also should increase steadily as efforts continue to diversify production and to improve the quality of goods.

The government perceives a major role for private investment in national economic development. Economic nationalism nevertheless is likely to lead to further restrictions on sectors open to foreign investment, to increased taxation, and to more stringent regulation of marketing arrangements, employment practices, and wages of foreign companies. We expect the issue of domestic participation in joint ventures with foreign corporations to be handled with reasonable flexibility. Efforts to maximize oil export earnings will continue to make Indonesia skeptical of OPEC schemes to prorate production.

Support by international lenders and donors reinforces the favorable prospects for Indonesia. The recent IGGI meeting pledged another $900 million in new government aid for accelerated development aimed at Indonesia's unemployment and income distribution problems. In addition, previous consortium commitments for project aid are sufficient to allow disbursements of $360 million annually for the next five years. Foreign bankers and investors, spurred by the oil boom and high investment returns, have been quick to respond to Indonesian capital needs. With Pertamina's short-term debt crisis at least partially resolved, bank credit should continue to be available. (Secret)■

* * * *

EGYPT: ECONOMIC PROSPECTS IMPROVE

Sadat's gamble that additional Arab cash would be forthcoming this year has paid off. Extensive aid from Saudi Arabia has bailed Cairo out of a financial bind that threatened imports needed to sustain economic growth and living standards. Achievement of full growth potential still depends heavily on continued progress toward a peace settlement.

Financial Strains

At the outset of 1975, Egypt faced a serious liquidity crisis brought on by lowered export earnings, large foreign debt maturities, and a winding down of postwar Arab aid. Because Egypt was emerging from a decade of economic stagnation, Sadat was unwilling to reduce imports. He banked instead on further Arab aid to cover the impending payments gap.

Saudis to the Rescue

Last month, the Saudis extended a cash loan of $600 million, which will enable Cairo to weather this financial storm. Egypt can now cover its current account deficit of $1.7 billion and its long- and medium-term economic debt repayments of $500 million. In addition to the new Saudi aid, Cairo has available $900 million in cash pledges from other OPEC countries, at least $300 million in long-term credits, $350 million in unused project aid, and $200 million from other sources -- making a grand total of $2.35 billion for the year.

Cairo may face additional foreign exchange requirements if military debt obligations to the USSR are not renegotiated. Egypt nonetheless should be able to get through 1975 without reducing imports from the high level of 1974.

Near Term Outlook

Prospects for economic progress over the next few years now appear promising, barring renewed hostilities. Annual foreign exchange earnings might even double in the next three years. By 1978, exploitation of new oil fields and the repressuring of the El Morgan field should raise output to roughly 650,000 b/d, or more than half of present Libyan production. Allowing for domestic consumption, oil exports would yield about $800 million annually (at current prices).

Earnings on the service account are also expected to increase. Hotel construction should help tourist earnings to top $800 million by 1978, compared

Projected 1975 Balance of Payments

			Million US $
Trade balance	-2,028	Current account balance	-1,678
Imports	3,028[1]	Debt repayment	-500[2]
Exports	1,000	Required financing	-2,178
Net services	350	Estimated financing available	2,350
Canal revenues	175	Surplus	172
Tourism	400		
Worker remittances	250		
Demurrage	-100		
Other	-375		

1. 1974 level.
2. Excluding military debt repayment.

with the $500 million anticipated for 1975. Suez Canal fees will increase from an estimated $175 million in 1975 to as much as $375 million next year.

Transportation and distribution problems should ease by 1978. A 50% increase in berthing space at the port of Alexandria is expected by late 1977. The IBRD has underwritten a major upgrading of the railway system.

Requirements for Continued Growth

In recent years, the economy has been held below its growth potential by severe shortages of foreign exchange, priority demands of the conflict with Israel, and an enervating system of bureaucratic controls. To reach its full potential, the economy needs growing sources of foreign exchange earnings, a higher rate of investment in both the private and state sectors, and a much more favorable environment for private business. Progress in all three directions can be achieved only within a framework of negotiations leading to peace. The prospect of breaking out of nearly a decade of economic stagnation gives the Egyptian government added inducement to avoid re-opening hostilities with Israel. (Secret No Foreign Dissem)

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Note

USSR: Continued Drought Lowers Spring Grain Yields

Severe drought continued in the Volga Valley, western Kazakhstan, and parts of the southern Ukraine through last week. Spring grains are beginning to head in this area, which normally accounts for about one-fourth of the spring grain crop, and lack of moisture is now reducing yields by as much as 3%-4% daily. Even if rains come soon, much of the crop is beyond saving. The deteriorating crop conditions have foreclosed the possibility of meeting the 1975 production goal of more than 215 million tons and probably will raise import needs above our previous estimate of 5 million tons. Despite recent rumors of grain purchases from the United States and Canada, no new sales have been announced. [redacted]

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ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

July 2, 1975

Approved For Release 2000/09/14 : CIA-RDP86T00608R000500140026-5

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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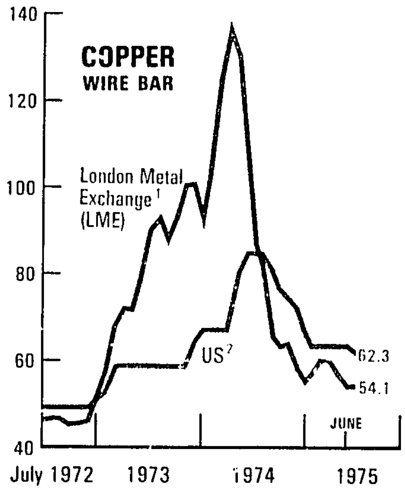
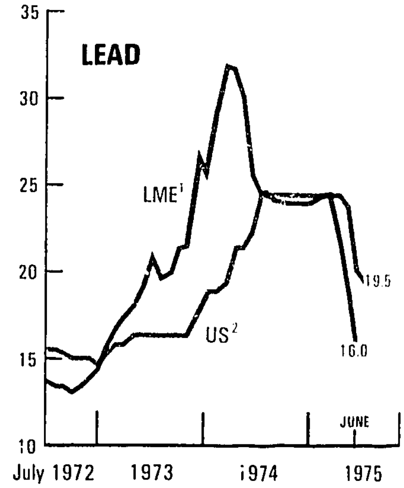
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
30 Jun	55.2	60.6
23 Jun	53.7	60.6
May 75	57.0	63.6
Jun 74	110.5	85.4

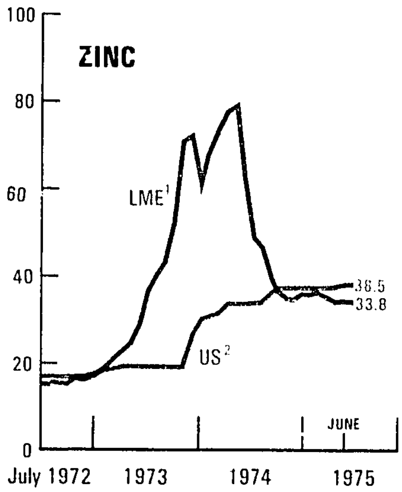


¢ Per Pound

	LME	US
30 Jun	16.5	19.0
23 Jun	16.3	19.0
May 75	19.0	23.7
Jun 74	25.8	22.4

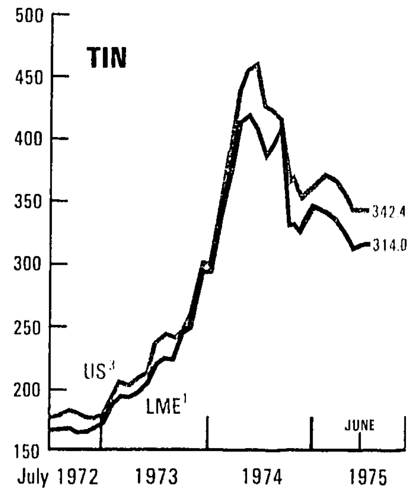
SELECTED M

Aluminum Majo
Steel Composite,
Iron Ore Non-Be
Chrome Ore Ru
Chrome Ore S.
Ferrochrome US
Nickel Major US
Manganese Ore
Tungsten Ore
Mercury NY, $/
Silver LME cash,



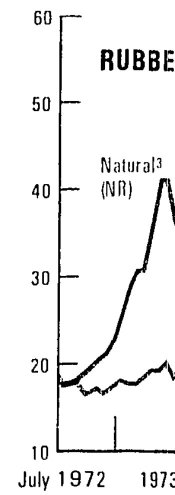
¢ Per Pound

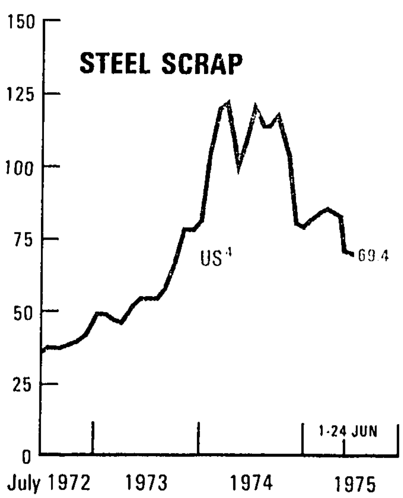
	LME	US
30 Jun	32.6	38.5
23 Jun	34.0	38.5
May 75	33.7	38.1
Jun 74	63.7	34.7



¢ Per Pound

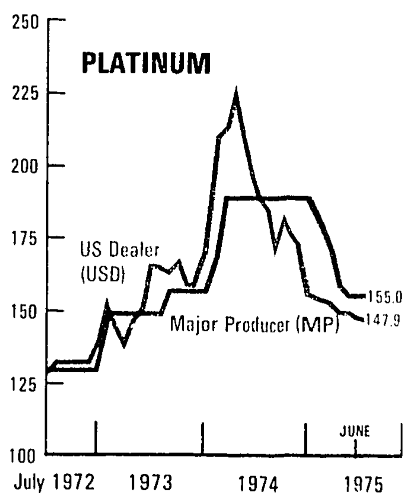
	LME	US
30 Jun	308.9	334.0
23 Jun	313.1	340.0
May 75	312.8	342.4
Jun 74	409.4	462.8





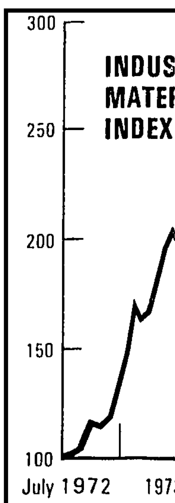
$ Per Long Ton

	US
30 Jun	N.A.
23 Jun	66.8
May 75	82.1
Jun 74	110.6



$ Per Troy Ounce

	MP	USD
30 Jun	155.0	148.5
23 Jun	155.0	146.5
May 75	155.0	149.2
Jun 74	190.0	197.2



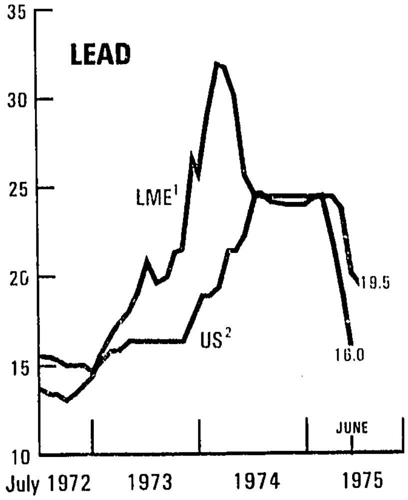
[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] S-type styrene, US f.a.s. export price.

CPYRGHT

CES Monthly Average Cash Price

er Pound

	LME	US
Jun	55.2	60.6
Jun	53.7	60.6
75	57.0	63.6
74	110.5	85.(



¢ Per Pound

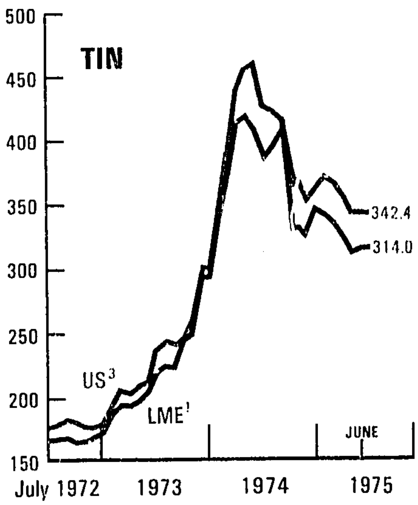
	LME	US
30 Jun	16.5	19.0
23 Jun	16.3	19.0
May 75	19.0	23.7
Jun 74	25.8	22.4

SELECTED MATERIALS

	Current	Dec 74	Jan 74	Jan 73
Aluminum Major US Prod., c/Lb	39.00	39.00	29.00	25.00
Steel Composite, $/LT	288.76	278.43	212.13	209.66
Iron Ore Non-Bessemer Old Range, $/LT	17.53	16.00	12.16	11.96
Chrome Ore Russian, $/MT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	49.50	33.50	25.50
Ferrochrome US Charge, c/Lb	53.50	47.82	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	1.85	1.62	1.53
Manganese Ore 48% Mn., $/LT	67.20	64.19	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	5,005.07	5,492.21	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	145.00	224.90	275.54	282.50
Silver LME cash, c/Troy Oz	450.67	440.23	380.29	200.15

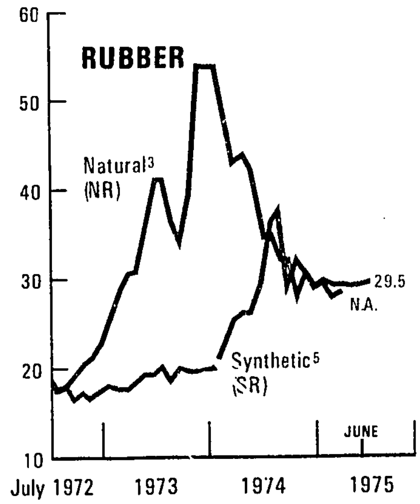
Per Pound

	LME	US
Jun	32.6	38.5
Jun	34.0	38.5
75	33.7	38.1
74	63.7	34.7



¢ Per Pound

	LME	US
30 Jun	308.9	334.0
23 Jun	313.1	340.0
May 75	312.8	342.4
Jun 74	409.4	462.8'

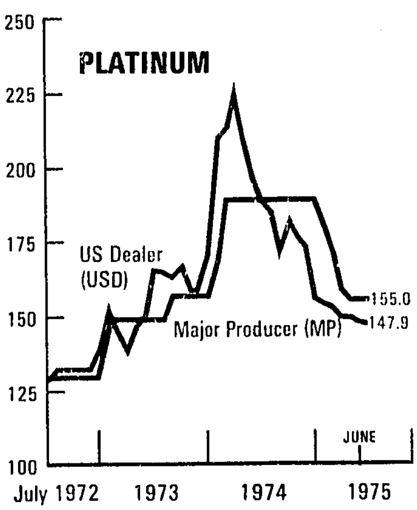


¢ Per Pound

	NR	SR
30 Jun	29.8	N.A.
23 Jun	29.5	N.A.
May 75	29.1	29.9
Jun 74	42.0	26.6

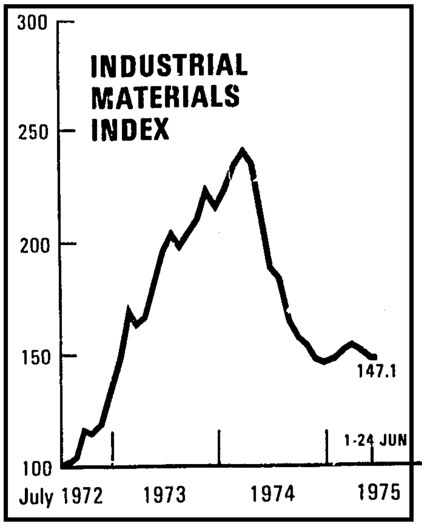
Per Long Ton

	US
Jun	N.A.
Jun	66.8
75	82.1
74	110.6



$ Per Troy Ounce

	MP	USD
30 Jun	155.0	148.5
23 Jun	155.0	146.5
May 75	155.0	149.2
Jun 74	190.0	197.2



1970=100

This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

producers and traders.
on the LME.
tates.
iladelphia, and Pittsburgh.

2 JULY 1975
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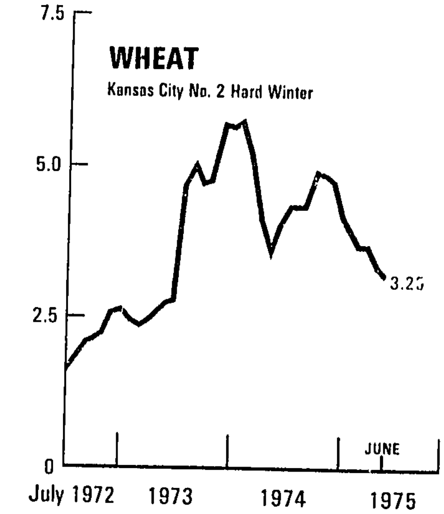
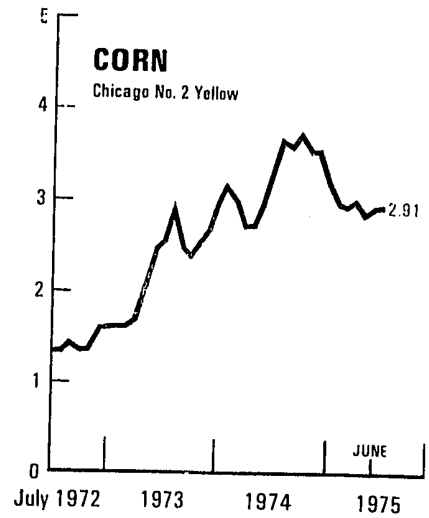
AGRICULTURAL PRICES Monthly Average Cash Price



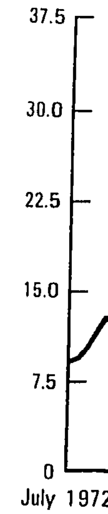
$ Per Bushel

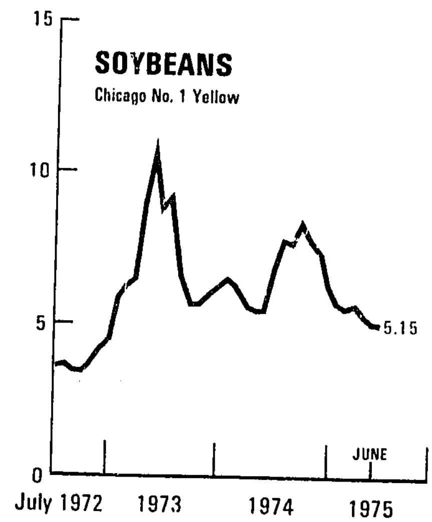
30 Jun	3.12
23 Jun	3.31
May 75	3.34
Jun 74	4.05



$ Per Bushel

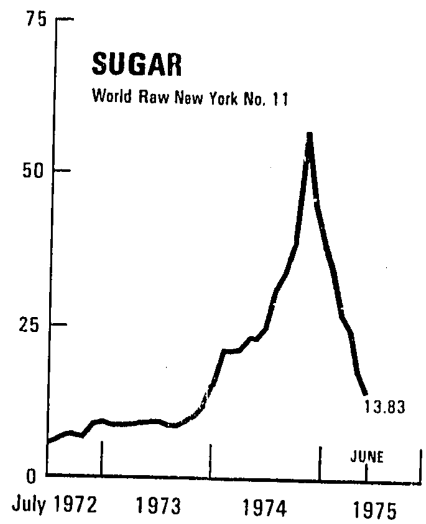
30 Jun	2.83
23 Jun	2.95
May 75	2.86
Jun 74	2.93





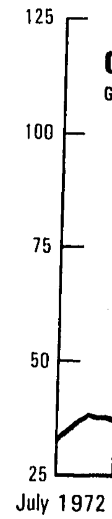
$ Per Bushel

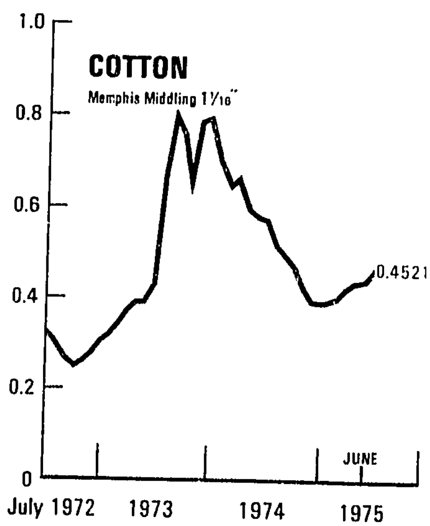
30 Jun	5.07
23 Jun	5.1[illegible]
May 75	5.23
Jun 74	5.48



¢ Per Pound

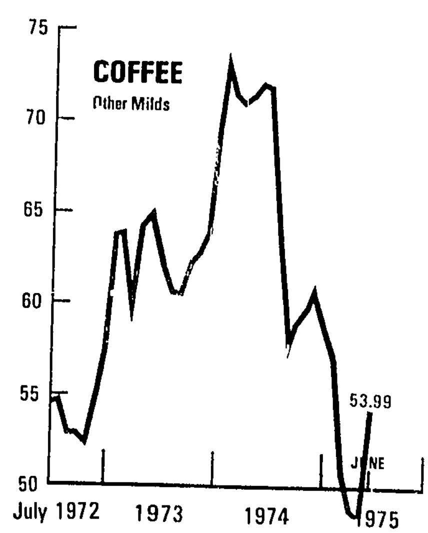
30 Jun	14.35
23 Jun	12.75
May 75	17.38
Jun 74	23.70





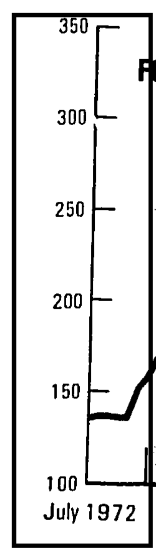
$ Per Pound

30 Jun	0.4750
23 Jun	0.4610
May 75	0.4348
Jun 74	0.5750



¢ Per Pound

30 Jun	52.50
23 Jun	53.50
May 75	48.42
Jun 74	72.00



Average Cash Pr.ce

r Bushel

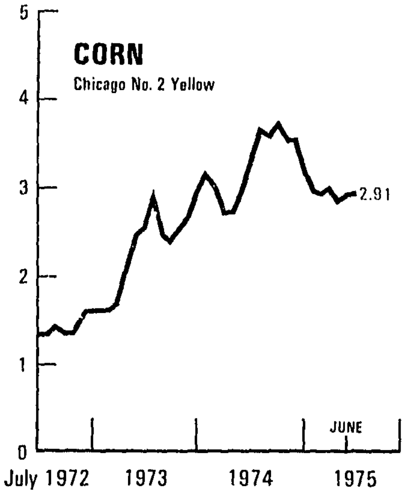
n	3.12
n	3.31
	3.?4
4	4.05

Bushel

5.07
5.19
5.23
5.48

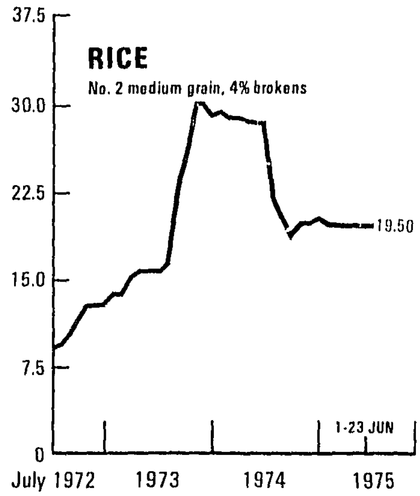
und

0.4750
0.4810
0.4348
0.5750



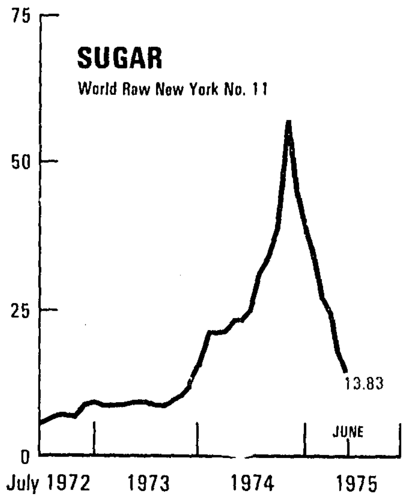
$ Per Bushel

30 Jun	2.83
23 Jun	2.95
May 75	2.86
Jun 74	2.93



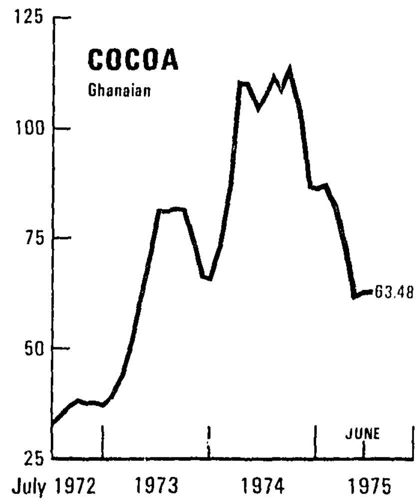
$ Per cwt.
f.o.b. mills, Houston, Tex.

23 Jun	19.50
16 Jun	19.50
May 75	19.50
Jun 74	28.50



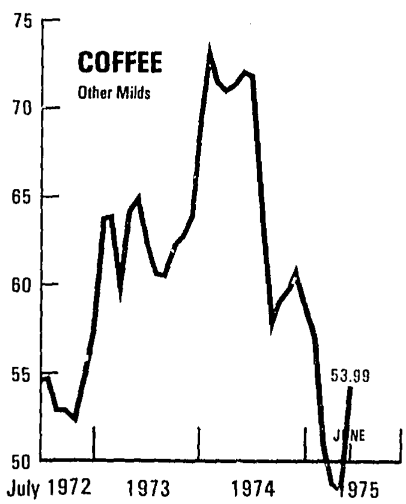
¢ Per Pound

30 Jun	14.35
23 Jun	12.75
May 75	17.38
Jun 74	23.70



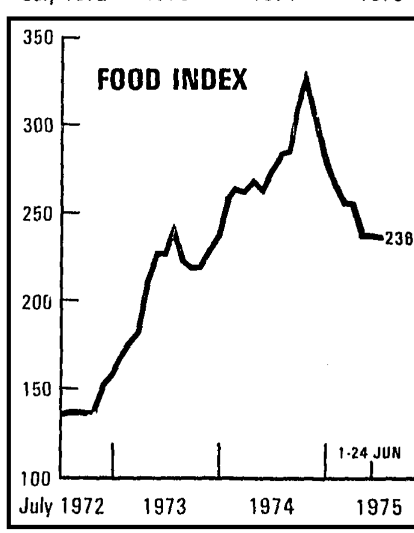
¢ Per Pound
New York price

30 Jun	66.50
23 Jun	63.50
May 75	61.23
Jun 74	103.50



¢ Per Pound

30 Jun	52.50
23 Jun	53.50
May 75	48.42
Jun 74	72.00



1970 = 100

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

2 JULY 1975
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